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Consumer Alert

A Publication of the South Carolina Department of Consumer Affairs Public Information Divison

SCDCA's Shred Day a big success.

In this Issue:

Seven ways we psych ourselves out of money, and how to stop it

When it comes to handling money, most of us aren't as rational and logical as we think.

We often know what we should do, but somehow just can't bring ourselves to do it. We buy a hot stock that really doesn't fit our investing needs and later wonder, "What the heck was I thinking?"

Well, there's a lot more to it and seemingly irrational money choices and decisions can often be explained through psychology and evolutionary history. These psychological traps can be overcome once you're aware of what they are and how they affect you.

1. The lure of "free"

No matter how smart you are, that one little word can lure you to make purchases you wouldn't have otherwise.

Studies have shown people will purchase an impractical, expensive vehicle if something as cheap as a year's worth of free oil changes are thrown in to the deal. This also explains why people often choose "free" (no annual charge) credit cards at a much higher interest rate than an annual charge credit card with a lower rate.

Psych yourself out: Whenever you see the term "free," consider it a warning to slow down and consider your choice very carefully. Do the math and always consider what you are giving up when you choose the item attached to something "free." Usually — but not always — there is a real cost to something touted as "free."

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Don't touch that knob!
The benefits of a programmable thermostat

The initial cost of a programmable thermostat varies from $30 to up to $250 or more based on the desired features. Those designed for heat pumps are slightly more expensive because of the need for two stage heating.

Because of the energy saving benefits, some utility companies or government agencies in specific areas may even offer incentives or rebates for installing programmable thermostats. While some thermostats can approach $300, the money saved over a year or two's time of usage can offset the initial cost.

You don't have to freeze to save money.

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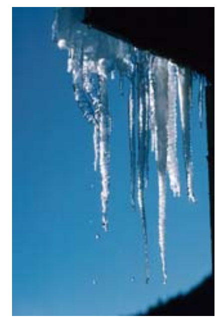
Brrr! Your home is cold!
Prepare your home for winter with these tips



Thankfully, South Carolina does not have the coldest winters, but there are still steps you need to take to prepare your home for the winter months.

The following are useful tips and reminders for preparing your home for winter. How many of them have you done?

1) Furnace Inspection

- Call an HVAC professional to inspect your furnace and clean ducts.
- Stock up on furnace filters and change them monthly.
- Consider switching out your thermostat for a programmable thermostat.
- Remove all flammable material from the area surrounding your furnace.

2) Get the Fireplace Ready

- Cap or screen the top of the chimney to keep out rodents and birds.
- If the chimney hasn't been cleaned for a while, call a chimney sweep to remove soot and creosote.
- Buy firewood or chop wood. Store it in a dry place away from the exterior of your home.

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What happens when the bank goes broke?

It can be unsettling when your bank fails.

Often no advance notice is given to the public before the institution is closed because officials don't want to create a run on the bank. If you were a **Washington Mutual** customer, you knew it was in trouble because it was in the news. But sometimes it's not nearly so obvious.

Customers can have a complicated relationship with their bank. Checking, savings, loans, mortgages, safe-deposit boxes and all the other services banks provide become a routine part of our lives. A disruption in service can be more than a hassle. It can mean late payments, running out of cash or no access to important documents.

The regulator of a failed bank usually names the Federal Deposit Insurance Corp., or FDIC, as receiver. In addition to ensuring customers receive all of their insured deposits, the agency strives to make the closing as hassle-free as possible.

Typically a bank closing will take place at the close of business on Friday and re-open with regular business operations on Monday. The majority of the work is performed over the weekend, and in most cases the consumer doesn't even notice.

According to the FDIC the following information describes what consumers can expect if their bank fails or is acquired.

If there is a difference between what would happen when a bank is acquired versus what happens if the FDIC has to run the bank, it will be noted.

1. ATM/debit cards You should have access to your funds though an ATM, but transactions during the time the bank is closed may not be posted to your account right away. This means money you take out on Saturday, may not show up as missing until Monday. It's your responsibility to keep track of your transactions.

2. Automatic payments/escrows
There should be no disruption in service, but check your account to be sure. If the payment wasn't made, contact the loan officer at the acquiring bank or call the FDIC if it's running the bank or handling the loans. The FDIC will publish a phone number on its website and in news releases for these types of concerns.

3. Automatic direct deposits/withdrawals Automatic direct deposits and/or automatic withdrawals will be transferred to your new bank.

4. CD accounts CDs are insured separately until the earliest maturity date after the end of the six-month grace period (see Deposits). CDs that mature during the grace period are renewed for the same term and in the same dollar amount unless you close the CD.

5. Checks Checks will be processed as usual. Checks that haven't cleared as of the date of the closing will be honored up to your available balance. Your new bank will contact you regarding any changes in the terms of your account. If a retailer refuses to accept your check, contact your branch office.

6. Deposits Most of the insured deposits are transferred in their entirety to the acquiring bank. A hold may be put on your account if you are the borrower or the guarantor of a delinquent loan. Any account pledged as collateral for a loan will be held. The FDIC will send you a letter explaining how to proceed.

Transferred accounts will be insured separately for at least six months after the merger. This is a grace period to give you time to restructure your accounts if you have an account at the acquiring bank, and the combination means you exceed the insurance limit.

7. Insured deposits The acquiring bank traditionally takes the insured deposits. Interest-bearing deposits continue to accrue interest at the same rate until the acquiring institution notifies you of a change in interest rate.

8. Uninsured deposits You should never count on the acquiring institution taking

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CONTINUED: Prepare your home for winter with these tips

• Inspect the fireplace damper for proper opening and closing.

3) Check the Exterior, Doors and Windows

• Inspect exterior for crevice cracks and exposed entry points around pipes. Seal them.

• Use weatherstripping around doors to prevent cold air from entering the home and caulk windows.

• Replace cracked glass in windows and, if you end up replacing the entire window, prime and paint exposed wood.

• If your home has a basement, consider protecting its window wells by covering them with plastic shields.

• Switch out summer screens with glass replacements from storage. If you have storm windows, install them.

4) Inspect Roof, Gutters & Downspouts

• If your weather temperature will fall below 32 degrees in the winter, adding extra insulation to the attic will prevent warm air from creeping to your roof and causing ice dams.

• Clean out the gutters and use a hose to spray water down the downspouts to clear away debris.

• Consider installing leaf guards on the gutters or extensions on the downspouts to direct water away from the home.

5) Service Weather-Specific Equipment

• Drain gas from lawnmowers.

• Clean, dry and store summer gardening equipment.

6) Check Foundations

• Rake away all debris and edible vegetation from the foundation.

• Seal up entry points to keep small animals from crawling under the house.

• Tuckpoint or seal foundation cracks. Mice can slip through space as thin as a dime.

• Inspect sill plates for dry rot or pest infestation.

7) Install Smoke and Carbon Monoxide Detectors

• Some cities require a smoke detector in every room.

• Buy extra smoke detector batteries and change them when daylight savings ends.

• Install a carbon monoxide detector.

• Buy a fire extinguisher or replace an extinguisher older than 10 years.

8) Prevent Plumbing Freezes

• Locate your water main in the event you need to shut it off in an emergency.

• Drain all garden hoses.

• Insulate exposed plumbing pipes.

9) Prepare Landscaping & Outdoor Surfaces

• Trim trees if branches hang too close to the house or electrical wires.

• Seal driveways, brick patios and wood decks.

• Move sensitive potted plants indoors or to a sheltered area.

10) Prepare an Emergency Kit

• Buy indoor candles and matches / lighter for use during a power shortage.

• Find the phone numbers for your utility companies and tape them near your phone or inside the phone book.

• Store extra bottled water and non-perishable food supplies (including pet food, if you have a pet), blankets and a first-aid kit in a dry and easy-to-access location.

• Prepare an evacuation plan in the event of an emergency.

DOES a space heater save you MONEY?

If your heater is equipped with a good thermostat and you do not heat the room to a warmer-than-normal temperature, you can save money by using an electric space heater in a single room and keeping the rest of the house chillier.

How much you'll save depends on the room size relative to the rest of the house, how well separated the room is from others in your home, and how you use your space heater.

Most Americans heat their homes with natural gas. Experts say that if you were to use an electric space heater to warm one room to your normal room temperature *and* lower the temperature in the rest of the house, the amount you'd save would depend on how much heat that area requires relative to the rest of the house. If the heat required is less than half the total for your house, then you should be able to reduce your overall energy costs.

Remember, on average, electricity in the U.S. is about twice as expensive as natural gas for the same amount of heating. So, for the same cost, you can heat only half the area.

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What happens when the bank goes broke?

uninsured deposits; however, they sometimes do. The FDIC can only transfer all deposits if the premium covers the uninsured amounts. That has happened in about 25 percent of the failures over the past 15 years. So far in 2008, more than 50 percent of the acquiring institutions have taken the uninsured deposits. But don't count on that trend to continue. Make sure your deposits are insured. Don't wait until the bank is closed to find out you're not covered.

9. Brokered deposits Most often these are CDs that you buy through a broker, such as Fidelity or Schwab. If the bank that's listed on the CD fails, an acquiring bank probably won't take them even though FDIC insurance may cover them fully.

The FDIC explains in more detail:

"Generally, brokered deposits are not turned over to the assuming bank. There are some assuming banks that have agreed to take brokered deposits. But usually we keep the brokered deposits back in the receivership and we pay those brokers directly."

"We have to make an insurance determination. We need to obtain documentation from the brokers on their individual clients, who they are and how much of that brokered deposit is their money. We have to make sure that no one individual has more than the insured limit in that brokered deposit. So, for example, we have to make sure no one has a $300,000 CD placed at that broker."

"Secondly, we need the names of the individuals because we must cross-reference those names with the depositor base of the failed institution to make sure the brokered client didn't also have funds at the bank.

"If the bank closed and you had a $150,000 CD in the bank and then you gave your broker $150,000 to place in a CD and the broker put the money into that same bank, that one client would have $150K at the broker, $150K at the bank."

"We'd cross-reference, add those two together and insure only up to $250,000. So $50,000 of the brokered deposit would be uninsured. When we give the money to the broker, we'd keep back $50,000 and then provide a receivership certificate to that client for $50,000 that he or she would use later to obtain any additional money from the liquidation of the receivership."

10. Dormant accounts If there has been no activity for 18 months, your account will be turned over to your state as unclaimed property. Contact your state treasurer's office or your state's office of unclaimed property for more information on these funds.

11. IRAs Retirement accounts are transferred in their entirety and insured.

12. Loans If the acquiring bank doesn't take over your loan, the FDIC will hold it as it tries to find a buyer. If it succeeds, you'll be notified. Each loan is reviewed independently to determine the best action for the loan. If you're in the middle of, for example, a home improvement project and you need additional funding, it would not be unheard of to get it.

If you want to find another lender and restructure the loan, do so. The FDIC would then release any collateral or transfer the collateral to the new lender.

> For most people, a bank failure or acquisition results in little more than a weekend of relatively minor inconvenience.

13. Online services Online banking and bill pay would not be available over the period that the bank is closed, Barr says. A message at the bank's website will explain that the site is temporarily unavailable.

14. Overdraft line of credit The overdraft line is transferred to the new bank.

15. Night deposit boxes You can drop money in them and it will be posted the next day or on Monday for weekend deposits.

16. Safe deposit boxes For weekend closings the boxes will not be accessible until the lobby reopens Monday. In other cases they should be available the following day.

17. Tax information The acquiring bank will be responsible for sending you your 1099 tax information. The FDIC will do 1098 reporting.

18. Trust accounts Accounts will be transferred to the acquiring bank.

The FDIC makes every effort to publish on its website a Q&A specific to each bank closing. If your bank fails, check the FDIC website frequently for the latest information.

Seven ways we psych ourselves out of money...

2. The 'anchor-price' persuasion

Have you ever lusted after an expensive piece of jewelry, only to discover later a comparable item that was much cheaper? You were probably thrilled by your "bargain" find — even if the cheaper jewelry still cost several thousand bucks, and was still possibly out of your price range.

A mental trick known as "anchoring" is responsible for this phenomenon. Our brains naturally latch on to the first price we see in a new-to-us purchase category, thus creating an anchor against which we compare all other prices. This helps us to better understand what we think something that we're unfamiliar with is worth.

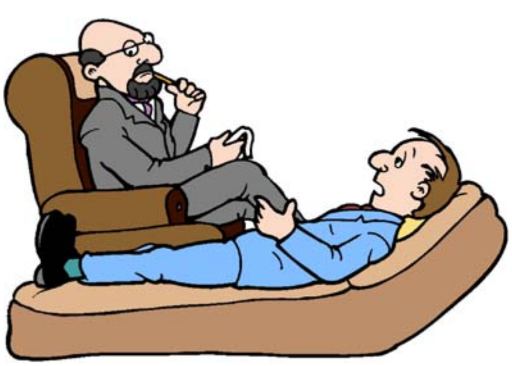
This is commonly seen in homebuyers who move from a more expensive area to a less expensive one, yet buy a house of similar value in the new area. While they get a lot more bang for the buck in the new cheaper area, they could have bought a similar home to what they were living in for a much lower price.

Psych yourself out: With home buying, consider renting for a year so that you can acclimate to the new housing market. As for other items, try waiting before purchasing to get a better sense for the spectrum of products and prices.

3. The instant-gratification attraction

Everyone knows they should save for future goals, like vacations, college, and retirement, but many still don't. Why? One pitfall for long term saving are instant gratification purchases that eat away at our income. The intense reward feeling of getting something now – the coffee shop splurge, the new pair of shoes, etc. – outweighs the desire to put away money for long term goals.

Psych yourself out: Intensely visualize your future goals, so that they seem more tangible. By having a clearly defined view of what you're working for – a European vacation, retiring in Florida – you'll be more motivated to save than with non-descript goals, like putting more money in your 401k.



"You see, Doc, it all started when they said the TV came with a free antenna."

4. The dollars-to-donuts decoy

The classic economic example of this is if a lamp that costs $100 at the store you're at was on sale for $50 at a store one mile down the road, would you make the trip? Now what if you were purchasing a dining room set for $5000 and found the same set was on sale for $4950 at a different store just one mile down the road?

Often people will instinctively make the trip in the first case, but not the second, because saving 50 percent seems more valuable than saving one percent, even if the actual amount of money is the same.

Psych yourself out: Keep reminding yourself that a dollar is a dollar.

5. The separate-buckets blunder

Most of us separate our money into different mental "buckets" with a bucket for savings, one for groceries, and so on. This often works very efficiently for people, but it can sometimes cause problems.

For example, maintaining a credit card balance even though you have the money to pay it off. Or, not paying extra on your car payment, even though you have some money available to do so. Another example would be frivolously spending your tax return, because it's "free" money.

Psych yourself out: Keep in mind that money is money, no matter what category it's in.

6. The 'sacred-fund' slip-up

Studies have shown that many people treat inheritance, retirement money, or other accounts that have special meaning much more conservatively than they do their normal funds. Mentally we consider these and some other accounts as "special money" and become overly conservative with it.

Psych yourself out: Deposit the money into a previously established savings account and leave it there until it feels like it's "your money."

7. The lost-money fallacy

Once we own something – a house, an investment stock, a car – we often irrationally keep it or even put more money into it, even when it's time to walk away and let it go.

This helps to explain why people are often reluctant to sell losing stocks. And, why some people continue to make repairs to an older car, because they don't want to "waste" the repairs they have already paid for.

Psych yourself out: Remind yourself that once it's gone, it's gone. Spent money cannot be recouped and therefore should not have a bearing on what you do with the money you have.

CONTINUED: The benefits of a programmable thermostat

Space heating and cooling accounts for more than 40 percent of the average home's energy use. A huge amount of this energy is often used to maintain interior temperatures within the comfort zone even when the home is unoccupied or when inhabitants are asleep. However, less heating and cooling is actually needed during these times.

By allowing the occupant to program a specific schedule, the programmable thermostats turn off the HVAC (heating/ventilating/and air-conditioning) systems when they are not needed. This way, the home is only conditioned when it needs to be and the energy consumption of the home is reduced.

With a programmable thermostat, your heating and cooling systems will operate less frequently, consume less energy and create lower utility bills. The average home owner spends over $600 per year on space heating and cooling. Programmable thermostats can reduce this amount by five percent to 12 percent.

Another advantage to programmable thermostats is having the ability to program ventilation into the thermostat's settings to provide fresh air to the house at appropriate times. Fresh air is beneficial to the health and well being of the whole family, and with programmable thermostats, you won't have to worry about the air quality in your home.

Certain features of the programmable thermostat are specific to the manufacturer and model. Some beneficial bonus features include a vacation override (a feature that permits an override for the programmed settings) and a keyboard lock that prevents unauthorized changes to the already programmed settings.

Some programmable thermostats can keep track of how long the HVAC system has been running over a selected time period.

These units save energy by offering four convenient, pre-programmed temperature settings — settings that try to anticipate when it's convenient for you to scale back on heating or cooling. Regardless of brand, even the most basic programmable thermostat will be a benefit to any home.

CONTINUED: Does a space heater save you money?

Other ways to lower your heating costs, according to our in-house experts include:

- Turning down your thermostat. Even lowering it 1°F reduces heating costs by about 3 percent.
- Improving the heat distribution of your central furnace instead of using pricier electricity to warm your home.
- If some rooms are too warm and others are too cold, the heating system is unbalanced and needs adjustment.
- Using a setback thermostat or turning off the space heater. If you go to bed at 11:00 p.m., set the temperature back at 10:00 p.m. or even earlier, or turn off the space heater well before you leave a room. Your house or the room won't become uncomfortably cool immediately.
- Wearing a sweater—or two. Mom was right: Extra clothing will keep you comfortable at a lower room temperature.

Finally, be safe when using a space heater. Electric space heaters cause an average of 3,000 fires each year in the U.S., often because of improper use, according to the National Fire Protection Association. Read the NFPA's safety advice and our coverage of the risks associated with propane and kerosene heaters.

About the South Carolina Department of Consumer Affairs

Established by the Consumer Protection Code in 1974, the South Carolina Department of Consumer Affairs represents the interest of South Carolina consumers. Our mission is to protect consumers from inequities in the marketplace through advocacy, meditation, enforcement, and education. For more information on the SCDCA,visit **www.scconsumer.gov**.

Our mission is to protect consumers from inequities in the marketplace through advocacy, mediation, enforcement and education.The Department strives to be a **CREDIT** to our State by holding the following values as essential in our relationships and decision-making:

Competence **R** espect **E** quality **D** edication **I** ntegrity **T** imeliness

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